



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
SOLID WASTE MANAGEMENT BOARD
YEAR ENDED JUNE 30, 1977**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the Department's system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

**REPORT TO THE
CALIFORNIA LEGISLATURE**

REPORT OF THE
JOINT REVENUE SHARING TASK FORCE
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE
AND THE
DEPARTMENT OF FINANCE

831

FINANCIAL AUDIT REPORT
SOLID WASTE MANAGEMENT BOARD
YEAR ENDED JUNE 30, 1977



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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RICHARD ROBINSON
CHAIRMAN

March 23, 1979

831

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the
Auditor General's financial audit report of Solid Waste
Management Board, Year Ended June 30, 1977.

The auditors are Robert Hamric, CPA; William Woodward, CPA;
Sandra Bevers and Thomas Dovi, CPA.

Sincerely,

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee

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INTRODUCTION

In compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Solid Waste Management Board. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code and in the Department of Finance by Section 13294 of the Government Code.

The objectives of the Solid Waste Management Board are to work with local government to protect California from further environmental degradation of the land mass and to investigate and promote more efficient methods of recovering waste materials, resources and energy. The Board is responsible for the statewide development, implementation and enforcement of minimum standards and policies for solid waste management and for the review, approval and technical assistance to local government for implementation and enforcement of the required county solid waste management plans. The Board is also responsible for studies and demonstration projects on the recovery of resources and useful energy from solid wastes.

The programs of the Solid Waste Management Board are supported by the General Fund and by reimbursements from the California Environmental Protection Program Fund and federal grants.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature and
the Department of Finance:

We have examined the combined balance sheet of the Solid Waste Management Board as of June 30, 1977, and the related statements of revenues, expenditures and changes in operating clearing for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of inadequate supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the General Fixed Assets account group amounting to \$6,322 at June 30, 1977. Accordingly, we do not express an opinion on the General Fixed Assets account group.

In our opinion, except as stated in the preceding paragraph, these financial statements present fairly the financial position of the Solid Waste Management Board at June 30, 1977, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total - Memorandum Only" for June 30, 1977, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statement of revenues, expenditures and changes in operating clearing for the year ended June 30, 1976, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them. This column includes balances of \$21,375 for accounts payable, \$124,585 for encumbrances outstanding and \$145,960 for operating clearing which were in the California Environmental Protection Program Fund at June 30, 1976. This fund was closed for the Solid Waste Management Board's purpose during the fiscal year ended June 30, 1977.

In connection with our examination, we also made a study and evaluation of the Solid Waste Management Board's system of internal accounting control. Our findings are set forth under the heading "Comments and Recommendations."

Revenue Sharing Task Force



Wesley E. Voss
Assistant Auditor General

Date: August 7, 1978

Staff: Robert Hamric, CPA
William Woodward, CPA
Sandra Bevers
Thomas Dovi

SOLID WASTE MANAGEMENT BOARD

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1977
(With Unaudited Figures for 1976)

ASSETS	Governmental Funds		Account Group	TOTAL (Memorandum Only)	
	General Fund	California Environmental Protection Program Fund (Note 2)		June 30, 1977	June 30, 1976
	Cash	\$ 2,785	\$ -	\$ -	\$ 2,785
Accounts Receivable	394,101	-	-	394,101	187,453
Expense Advances to Employees	243	-	-	243	2,582
Equipment	-	-	6,322	6,322	6,322
TOTAL ASSETS	\$ 397,129	\$ -	\$6,322	\$ 403,451	\$ 198,982
LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY					
Liabilities:					
Accounts Payable (Note 3)	\$ 129,325	\$ -	\$ -	\$ 129,325	\$ 53,360
Encumbrances Outstanding (Note 4)	646,300	-	-	646,300	511,942
Fund Equity:					
Investment in General Fixed Assets	-	-	6,322	6,322	6,322
Operating Clearing (Note 5)	(378,496)	-	-	(378,496)	(372,642)
TOTAL FUND EQUITY	(378,496)	-	6,322	(372,174)	(366,320)
TOTAL LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY	\$ 397,129	\$ -	\$6,322	\$ 403,451	\$ 198,982

The notes to the financial statements are an integral part of this statement.

SOLID WASTE MANAGEMENT BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN OPERATING CLEARING - BUDGET AND ACTUAL
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977
(With Unaudited Amounts for 1976)

	1977			1976
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Revenues:				
Sales of Documents	\$ -	\$ 601	\$ 601	\$ 3
Miscellaneous Sales to Public	-	20	20	-
Total Revenues ^{a/}	-	621	621	3
Other Sources:				
Reimbursements	782,987	782,987	-	228,777
General Fund Appropriation	1,489,513	1,320,842	(168,671)	753,564
Total Sources of Financial Resources	<u>\$2,272,500</u>	<u>2,104,450</u>	<u>\$(168,050)</u>	<u>982,344</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Personal Services	\$ 880,999	799,166	\$ (81,833)	603,961
General Expense	83,462	77,271	(6,191)	68,222
Printing	2,000	5,859	3,859	664
Communications	22,443	27,595	5,152	15,601
Travel-in-State	56,359	47,163	(9,196)	44,952
Training	1,000	1,386	386	523
Travel-out-of State	7,000	5,448	(1,552)	3,600
Facilities Operations	65,683	30,442	(35,241)	33,683
Consultant and Professional Services	601,713	631,256	29,543	198,936
Equipment	4,000	4,367	367	5,359
Preparation of Report for San Francisco Bay Area	349,619	349,619	-	187,453
Study of Humboldt County Resources and Energy Conservation Project	200,000	200,000	-	-
Special Projects	92,927	92,927	-	-
Unaccrued Expenses (Note 7)	-	36,732	36,732	-
Total Uses of Financial Resources	<u>\$2,367,205</u>	<u>2,309,231</u>	<u>\$ 57,974</u>	<u>1,162,954</u>
Net Decrease in Operating Clearing for the Current Year		(204,781)		(180,610)
Prior Year:				
Prior Year Appropriation Adjustments		52,967		(41,637)
Operating Clearing - July 1		(226,682)		(4,435)
Operating Clearing - June 30		<u>\$ (378,496)</u>		<u>\$ (226,682)</u>

^{a/} Revenues are not included in the legislative budget bill. The amounts shown on this statement are agency budgeted revenue amounts that are shown in the Governor's Annual Budget.

The notes to the financial statements are an integral part of this statement.

SOLID WASTE MANAGEMENT BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN OPERATING CLEARING - BUDGET AND ACTUAL
CALIFORNIA ENVIRONMENTAL PROTECTION PROGRAM FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977
(With Unaudited Amounts for 1976)

	1977		1976
	Budget As Adjusted	Actual	Actual
			Over (Under) Budget
<u>Sources of Financial Resources</u>			
Other Sources:			
General Fund Appropriations	\$ -	\$ <u>130,473</u>	\$ -
Total Sources of Financial Resources	\$ <u>-</u>	<u>130,473</u>	\$ <u>-</u>
<u>Uses of Financial Resources</u>			
Expenditures:			
Current:			
Consultant Services	\$ -	-	\$ -
Prior Year:			
Prior Year Appropriation Adjustments	-	(<u>15,487</u>)	-
Total Uses of Financial Resources	\$ <u>-</u>	(<u>15,487</u>)	\$ <u>-</u>
Net Increase (Decrease) in Operating Clearing During the Year		145,960	(145,960)
Operating Clearing - July 1		(<u>145,960</u>)	-
Operating Clearing - June 30		\$ <u>-</u>	\$ <u>(145,960)</u>

The notes to the financial statements are an integral part of this statement.

SOLID WASTE MANAGEMENT BOARD
ALL FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

1. Summary of Significant Accounting Policies

The accounting policies of the Solid Waste Management Board conform to generally accepted accounting principles as contained in the State Administrative Manual.

General Fund

The Solid Waste Management Board accounts for only its portion of the State's General Fund. Central accounts for the General Fund are maintained by the State Controller and annual consolidated General Fund statements are published by that office.

Income:

Throughout the fiscal year, income is accounted on a cash basis, except for appropriation reimbursements which are recorded when billed. At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables estimated not to be collectible within one year which are fully reserved.

Expenditures:

During the fiscal year, expenditures are accounted on a claims filed (with the State Controller) basis. Valid expenditure commitments are accrued at June 30.

Liabilities

Retirement Plan: Regular employees of the Solid Waste Management Board are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year included in the expenditures-personal services account were \$77,579.

Vacation and Sick Leave: The Board does not record the costs of vacation and sick leave at the time the benefits are accumulated. At the time of usage, the expenditures-personal services account is charged.

General Fixed Assets

Purchases of equipment are recorded as expenditures in the year of acquisition. The aggregate cost, with the exception of certain nonexpendable equipment items not on the State Administrative Manual equipment list, is capitalized in the General Fixed Assets account group. Nonexpendable equipment, generally valued at \$150 or over with a useful life of two years or more, is recorded at original cost or, if not available, at fair market value.

2. California Environmental Protection Program Fund

The California Environmental Protection Program Fund (CEPP) reimbursed the General Fund for special programs conducted by the Solid Waste Management Board. The appropriation for the special programs ended on June 30, 1976, but some liabilities were paid during the fiscal year ended June 30, 1977. This fund was closed prior to June 30, 1977 and consequently is shown in the combined balance sheet without ending balances.

Income:

The Solid Waste Management Board collected no income for this fund.

Expenditures:

During the fiscal year, expenditures were accounted on a claims filed (with the State Controller) basis. Valid expenditure commitments were accrued at June 30.

3. Accounts Payable

Accounts payable include all unpaid liabilities for goods and services received as of June 30. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller by June 30, but which had not been paid as of that date.

4. Encumbrances Outstanding

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30.

5. Operating Clearing

This account is the connecting link between the Solid Waste Management Board's portion of the General Fund and the central accounts of the General Fund or other funds maintained by the State Controller. The account balance at June 30, 1977 represents the net liabilities of the General Fund.

6. General Fixed Assets Account Group

The Solid Waste Management Board has not maintained an adequate record of its general fixed assets. Subsidiary records have not been updated since October 1976, and the aggregate amount disagrees with the general ledger equipment account by \$1490. A physical inventory will be required to reconcile the two amounts.

7. Unaccrued Expenses

These expenditures were not accrued as of June 30, 1977 and are not identified as to category of expenditures.

COMMENTS AND RECOMMENDATIONS

Internal Accounting Control

As part of our examination, we made a study of the Solid Waste Management Board's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist in planning and performing the examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstood instructions, mistaken judgment, carelessness or other personal factors. Control procedures whose effectiveness depends

upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to executing and recording transactions or with respect to the estimates and judgments required in preparing financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements was made in accordance with generally accepted auditing standards. This included studying and evaluating the Solid Waste Management Board's system of internal accounting control for the year ended June 30, 1977. This study and evaluation was designed for the purposes set forth in the first paragraph of this section of the report and would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

The Solid Waste Management Board operated under an inter-agency agreement with the State Air Resources Board (ARB). ARB performed a number of administrative service functions for the Solid Waste Management Board. These functions included accounting, purchasing, property control and budgeting. Our examination, therefore, also included a study of ARB's system of internal accounting control.

Our study and evaluation of the systems of internal accounting control of the Solid Waste Management Board and the State Air Resources Board disclosed the following conditions.

Accounting Records Are Not Kept Current

The accounting records are not kept current as required by the State Administrative Manual (SAM) Section 7110. At the start of our audit in May 1978, the records were only posted through January 1978. The equipment account had not been updated since October 1976. The above condition can result in errors going undetected for long periods of time.

Recommendation: The accounting records be maintained on a current basis in compliance with Section 7110 of the State Administrative Manual.

Controls Over Property Are Inadequate

The safeguarding of state owned property is the responsibility of all state agencies. Specific requirements have been established in the State Administrative Manual to assist agencies in the safeguarding of property. The Solid Waste Management Board failed to comply with two of these requirements.

Section 7923 of the State Administrative Manual requires agencies to reconcile equipment expenditures to the property ledger. These reconciliations are to be made at the end of each month, or each quarter if the volume of property transactions is small. The reconciliations have not been made since October 1975.

Section 8659 of the State Administrative Manual requires that a physical inspection and account of all nonexpendable property be made at least once every three years. The Board has not completed a physical inspection since 1974.

Recommendation: The Solid Waste Management Board strengthen its control over property by requiring or performing the reconciliations and physical inspections mandated by Sections 7923 and 8659 of the State Administrative Manual.

Claims for Payment Procedures Need Strengthening

The Board has processed claims for payment without requiring stock received reports. These reports verify receipt of goods and/or services and should correspond to invoices and authorizations for purchases. Section 8410 of the State Administrative Manual requires receipt of stock received reports prior to processing claims for payment. The Board has processed numerous claims for payment solely upon the signature of one employee. This signature served as authorization for purchase, receipt of goods and/or services and approval for payment.

Recommendation: The Board comply with SAM Section 8410 and require a stock received report before processing any claim for payment. The certifications required to process claims for payment should separate the duties of authorization for purchase, receipt of goods and/or services and approval for payment.

The foregoing conditions were considered in determining the nature, timing and extent of audit tests to be applied in our examination of the financial statements, and this presentation of such conditions does not modify our opinion report on such financial statements.

AUDIT ADJUSTMENTS

The aforementioned financial statements contain adjustments to the accounts payable and operating clearing accounts. The adjustments were necessary to correct the Board's accrual entries. The Board concurred with the suggested journal entries and accordingly adjusted the financial records to reflect those adjustments.

Memorandum

To : Samuel E. Hull
Chief, Joint Revenue Sharing Task Force
Department of Finance
1025 "P" Street
Sacramento, CA 95814

Date: March 16, 1979

From : **STATE SOLID WASTE MANAGEMENT BOARD**

Subject: Draft Audit Report (Period Ending June 30, 1977)

This memorandum serves as response to the recent financial audit of the Solid Waste Management Board as of June 30, 1977.

As mentioned in your report, most of the Board's administrative functions were performed under inter-agency agreement with the State Air Resources Board. That situation existed until July 1, 1978, when the Board assumed its own administrative responsibilities. Therefore, it is difficult for the Board's present administrative staff to comment on past practices.

With the Board's physical assumption of its administrative responsibilities, there have been changes in all areas of administration. These changes have been directed toward compliance with the State Administrative Manual requirements.

If you have any questions, please contact Ed Willis at (2-1769).



John J. Nichols
Chief, Administration Division

cc: Edward Willis

Willis:jdm

Office of the Auditor General

cc: Members of the Legislature
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Office of the Lieutenant Governor
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State Controller
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